



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green with check	Grey	Red
Right Valuation (RV)	Green with check	Grey	Red
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	Green	↓	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

ESG Disclosure Score NEW

ESG RISK RATING
Updated Dec 08, 2022 **36.3**

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 52,527 cr
52-week high/low:	Rs. 1,750/1,242
NSE volume: (No of shares)	3.4 lakh
BSE code:	500420
NSE code:	TORNTPHARM
Free float: (No of shares)	9.7 cr

Shareholding (%)

Promoters	71.3
FII	12.1
DII	8.9
Others	7.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.8	-3.0	4.8	8.9
Relative to Sensex	8.8	3.1	6.8	7.5

Sharekhan Research, Bloomberg

Torrent Pharmaceuticals Ltd
India sales stays ahead of market trend

Pharmaceuticals	Sharekhan code: TORNTPHARM	
Reco/View: Buy	↔	CMP: Rs. 1,552 Price Target: Rs. 1,788 ↔
↑ Upgrade	↔ Maintain	↓ Downgrade

Summary

- Torrent Pharma's average sales growth stood at 13.5% (for January and February), beating the Indian Pharma Market's (IPM's) 11.3% growth for the same period. On a MAT basis, sales grew by 15.5% for February 2023 versus the IPM's 8.2%.
- Torrent Pharma's IPM-based average revenue growth run rate for Q4FY23E is in line with our estimate of 13.0%. We, hence, maintain our overall revenue and earnings growth estimates at 12.3% and 19.5% CAGR over FY2022-FY2025E, respectively.
- Key markets such as India and Brazil will continue to support revenue growth while Curatio's acquisition will aid margin expansion.
- Stock trades at 31.3x/24.5x its FY24E/FY25E EPS estimates. We maintain a Buy on Torrent Pharma with an unchanged PT of Rs. 1,788.

Torrent Pharma's average domestic sale growth (13.5%) has beat market (Indian Pharma Market – IPM's) average growth in January and February 2023 (11.3%), as per AIOCD. On a Moving Annual Total (MAT) basis, Torrent's sales grew by 15.5% for February 2023, versus the IPM's 8.2%. The beat is likely to be driven by new product launches, performance of its top brands, strong growth in newly acquired Curatio portfolio, recent expansion of its field force and higher productivity. The company is the eighth-largest IPM player and has historically grown above IPM. It ranks fifth for chronic and sub-chronic therapy areas of cardiovascular disease (CVD), Vitamins and Minerals (VMS), Central Nervous System (CNS), and gastroenterology (GI) in India. Its 19 brands feature in top 500 pharma brands in India as of Q3FY23 vs. 17 in FY22 while 13 brands have revenue of over Rs. 100 crore each versus 11 such brands in FY22. Growth is expected to be aided also by the pricing growth, which the company has guided to remain consistent over next few quarters. The average pricing growth of 6.3% YoY every month (over the past several months under observation) for the industry corroborate with it.

- **Strong growth in Torrent Pharma India sales in January-February 2023 (Q4FY23E):** As per AIOCD's data, Torrent Pharma's average sales growth for January and February 2023 (13.5%) has been above market average growth for the same months (11.3%), indicating the likely growth run rate for Q4FY23E, for the company.
- **India and Brazil to support overall growth:** The company draws large share of its revenue from India and Brazil wherein it generates higher gross margins. In India, the company is already performing on the back of its strong brands. In Brazil, the company is expected to grow on the back of increase in MR strengths for CNS, generics segment growing and new product launches.
- **The company expects strong pricing growth:** IPM's growth has been driven consistently by an average pricing growth of 6.3% y-o-y every month for the industry. At the same time, Torrent Pharma expects 7-8% price rise over the next few quarters

Our Call

Torrent Pharma's domestic average sales growth for the months of January and February (13.5%) has been above average market (Indian Pharma Market – IPM) growth (11.3%) for the same months, indicative of run rate for the company for Q4FY23E. On a moving annual total (MAT) basis, the company's sales growth was at 15.5% for Feb 2023 vs. 8.2% for IPM. The sales growth beat over IPM is likely to be driven by new product launches, performance of its top brands, strong growth in its newly acquired Curatio's portfolio, recent expansion of its field force and increase in their productivity. Torrent Pharma's Q4FY23E growth run rate (as per AIOCD) as indicated by Jan and Feb 23's average IPM sales growth, is in line with our estimate. We, hence, maintain our overall revenue and earnings growth estimates at 12.3% and 19.5% CAGR, respectively over FY2022-FY2025E. At CMP, the stock trades at 31.3x/24.5x its FY24E/FY25E EPS, respectively. We maintain Buy on Torrent Pharma with an unchanged PT of Rs. 1,788.

Key Risks

Delays in the resolution of USFDA issues at its plants and heightened competitive pressures in the US.

Valuation (Consolidated)

Particulars	FY2021	FY2022	FY2023E	FY2024E	FY2025E
Net sales	8,005.0	8,508.0	9,338.2	10,657.3	12,042.9
EBITDA Margin (%)	31.0	28.6	29.5	31.5	32.5
Adj. PAT	1252.0	1262.0	1231.2	1687.2	2155.8
Adj. EPS (Rs)	36.8	37.1	36.2	49.6	63.4
PER (x)	42.1	41.8	42.9	31.3	24.5
EV/EBITDA (x)	23.1	23.2	20.7	16.6	13.8
ROCE (%)	16.9	18.4	20.6	24.9	26.6
RONW (%)	23.1	21.1	19.4	23.4	25.2
RONW (%)	23.1	21.1	19.4	23.4	25.2

Source: Company; Sharekhan estimates

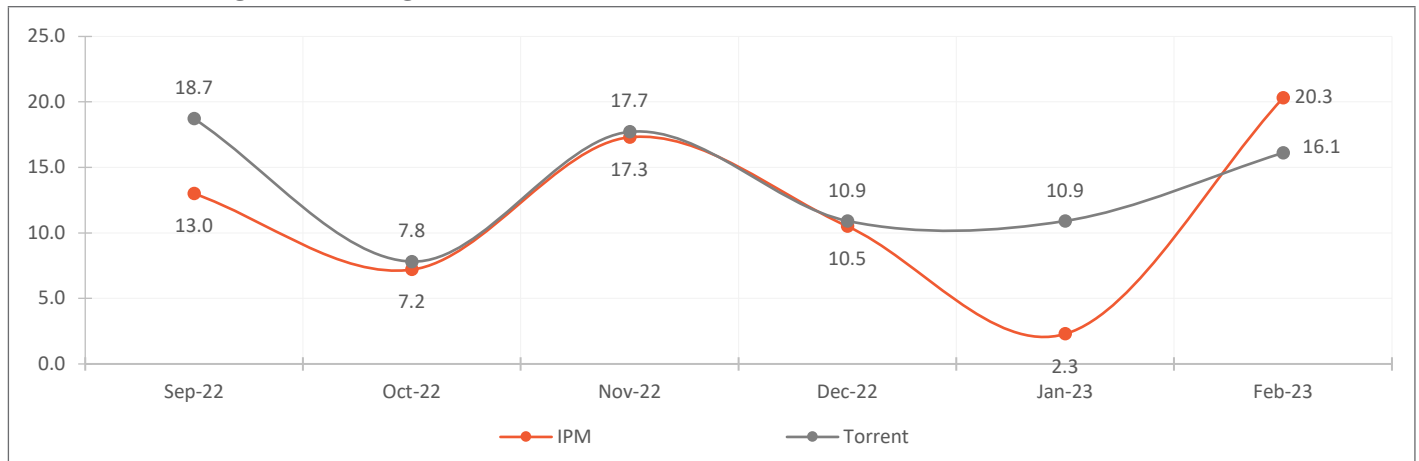
Strong growth observed in Torrent Pharma India sales in January – February 2023 (Q4FY23E)

As per the All-Indian Origin Chemists & Distributors Ltd (AIOCD's) data, Torrent Pharma's India sales growth (13.5%) beat the IPM's average growth of 11.3% for January and February. The company's India sales growth was 10.9% and 16.1% y-o-y for the months of January and February 2023, vis-à-vis, IPM growth of 2.3% and 20.3% YoY, for each of those months, respectively. This indicates resilience of the company's brands. The company is the eighth-largest IPM player and has historically grown above IPM. It has 5th rank in chronic and sub-chronic therapy areas of cardiovascular disease (CVD), Vitamins and Minerals (VMS), Central Nervous System (CNS), and Gastroenterology (GI). Its 19 brands feature in top 500 pharma brands in India as of Q3FY23 vs. 17 in FY22 while 13 brands have revenue of over Rs. 100 crore each versus 11 such brands in FY22.

India and Brazil to support overall growth

The company draws bulk of its revenue from India (51% of revenue) and Brazil (10% of revenue) wherein it generates higher gross margins. This is because the company generates nearly 70% of revenues from high-value branded generics products across the markets. In India, the company is already performing led by strong brands. In Brazil the company expects to grow on the back of increase in Medical Representatives (MR) strengths for CNS, generics segment growing and new product launches. The company plans to launch 4-6 products in Brazil market, every year, over short – medium term vs. 22 existing products being marketed there, currently. The US market (12% of revenue) continues to grow as well despite two of its facilities (Intrad-19 existing products and Dahej - 16 existing products) being under OAI status as the base business continues to grow on the back of 55 existing products marketed there.

Torrent India's sales growth vs. IPM growth



Source: AIOCD and Sharekhan Research

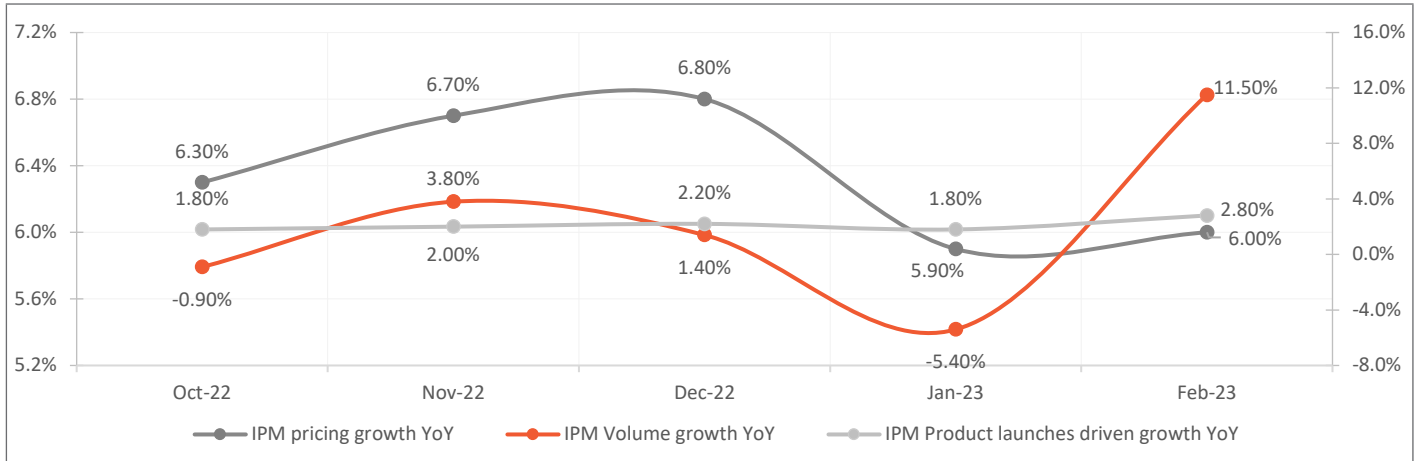
The company expects strong pricing growth

The IPM's (industry) growth has been driven consistently by an average pricing growth of 6.3% y-o-y every month over the past several months under observation. Torrent Pharma expects 7-8% price rise over the next few months as the product launches over the last 24 months, including Sitagliptin for diabetes and Pregabalin in CNS segments, wherein they hold large market share, should enable them to drive higher pricing and revenue growth over short – medium term.

Strong cost synergies from Curatio to aid earnings growth

The newly acquired Curatio India Pvt Ltd. should help it realise cost synergies from the closure of overlapping distribution and warehouse setups. The company expects the margin enhancement of 300-400 bps achieved in Q3FY23 to sustain in the coming quarters on the back of cost synergies from Curatio’s integration.

Pricing growth in IPM



Source: AIOCD and Sharekhan Research

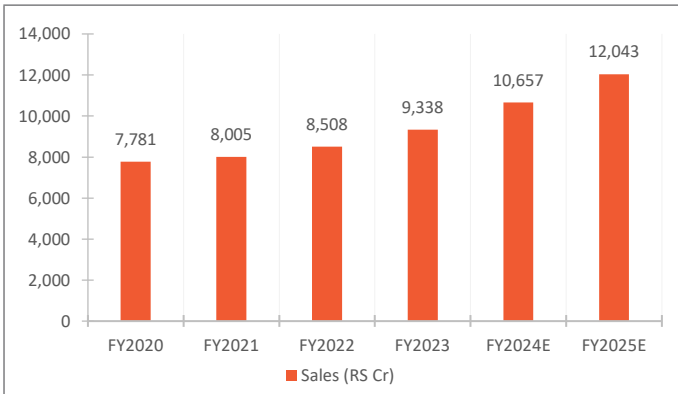
Top brands of Torrent Pharma in India



Source: Sharekhan Research

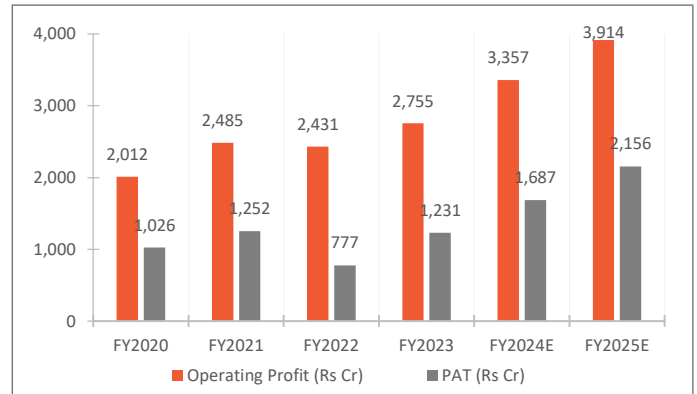
Financials in charts

Sales Trends (Rs Cr)



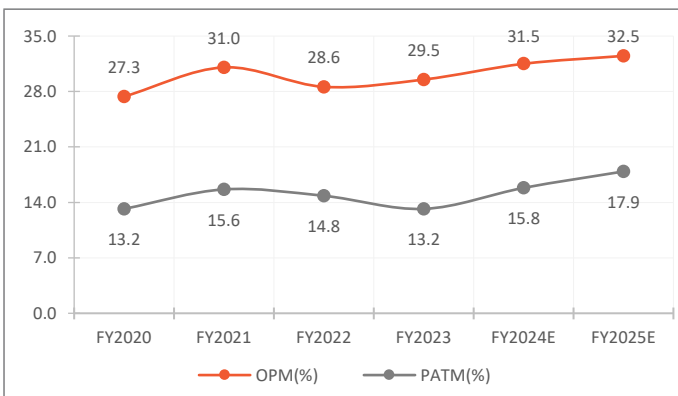
Source: Company, Sharekhan Research

Operating Profit - PAT Trends



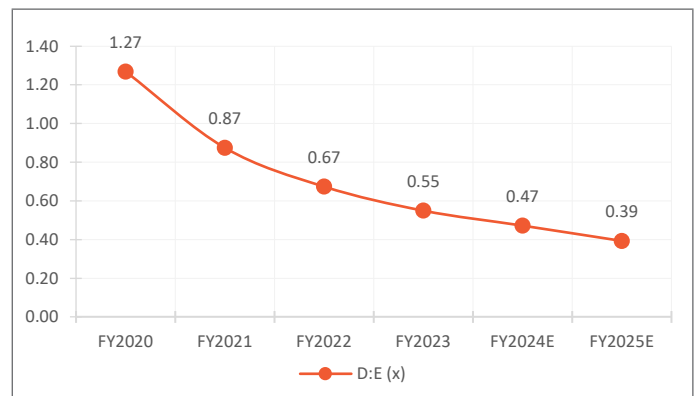
Source: Company, Sharekhan Research

Margin Trends



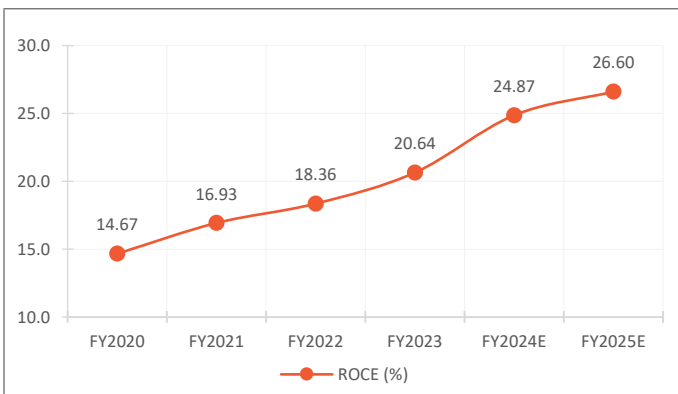
Source: Company, Sharekhan Research

Improving Leverage (D:E)



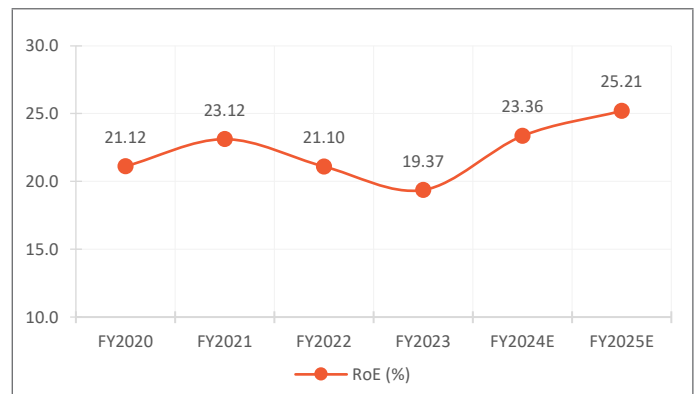
Source: Company, Sharekhan Research

RoCE Trend (%)



Source: Company, Sharekhan Research

RoE Trends (%)



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – Regulatory concerns and pricing erosion prove a hurdle over short – medium term

Over the years, Indian pharmaceutical companies have established themselves as dependable source for global pharma companies. The confluence of other factors, including a focus on specialty/complex products in addition to emerging opportunities in the API space, would be key growth drivers over the long term. However, ongoing USFDA plant inspections and a few companies being issued Form 483 with observations points at apparent regulatory concerns. We believe that in the near term, based on the headwinds that may drag the performance, especially in the API and CDMO space and for large pharma players seeing USFDA OAI or WL status on their facilities, we have a Neutral view of the sector.

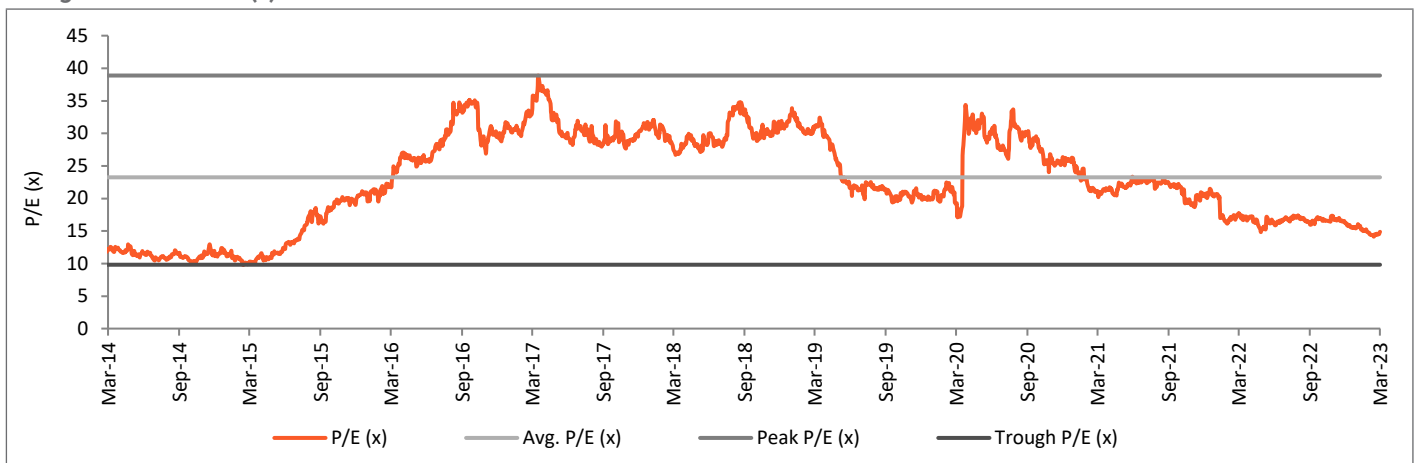
■ Company Outlook – Earnings prospects improve with strong outlook on India and Brazil

Torrent is a leading pharmaceutical company operating in emerging as well as developed markets. The company has a higher exposure to chronic therapies. Moreover, the company derives a substantial portion of its sales from India, followed by the US, Germany, and Brazil, which collectively form the core markets. The company has been outperforming in India as well as Brazil and the management expects to sustain traction going ahead as well and sees these geographies as key growth drivers. Moreover, the German business is expected to gain traction and stage strong growth ahead, backed by growth in the base business and product launches. The company's US business has been under pressure as two of its plants, which cater to US markets – Dahej and Indrad – are under the USFDA's scanner with OAI/WL classification. A timely and successful resolution of these USFDA observations at its two plants is critical and could result in earnings upgrades upon resolution.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 1,788

Torrent Pharma's domestic average sales growth for the months of January and February (13.5%) has been above average market (Indian Pharma Market – IPM) growth (11.3%) for the same months, indicative of run rate for the company for Q4FY23E. On a moving annual total (MAT) basis, the company's sales growth was at 15.5% for Feb 2023 vs. 8.2% for IPM. The sales growth beat over IPM is likely to be driven by new product launches, performance of its top brands, strong growth in its newly acquired Curatio's portfolio, recent expansion of its field force and increase in their productivity. Torrent Pharma's Q4FY23E growth run rate (as per AIOCD) as indicated by Jan and Feb 23's average IPM sales growth, is in line with our estimate. We, hence, maintain our overall revenue and earnings growth estimates at 12.3% and 19.5% CAGR, respectively over FY2022-FY2025E. At CMP, the stock trades at 31.3x/24.5x its FY24E/FY25E EPS, respectively. We maintain Buy on Torrent Pharma with an unchanged PT of Rs. 1,788.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer valuation

Companies	CMP (Rs / Share)	O/S Shares (Cr)	MCAP (Rs Cr)	P/E (x)			EV/EBIDTA (x)			RoE (%)		
				FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Torrent Pharma	1,552.0	33.84	52,527	42.9	31.3	24.5	20.7	16.6	13.8	19.4	23.4	25.2
Cipla	883.5	80.69	71,286	23.9	19.0	15.9	14.3	12.0	10.0	13.5	14.8	15.2
Zydus Lifescience	479.7	101.20	48,541	20.7	18.6	16.8	13.5	11.7	10.1	12.4	12.3	12.2

Source: Company, Sharekhan estimates

About company

Torrent, the flagship company of Torrent Group, was incorporated in 1972. Torrent has a strong international presence across 40 countries with operations in regulated and emerging markets such as the U.S., Europe, Brazil, and RoW. The company operates through its wholly owned subsidiaries spread across 12 nations with major setups in Brazil, Germany, and the US. The company is also one of the leading pharmaceutical companies present in India as a dominant player in the therapeutic areas of cardiovascular (CV) and central nervous system (CNS). The company also has a significant presence in gastro-intestinal, diabetology, anti-infectives, and pain management segments.

Investment theme

Torrent continues to focus on a branded business mix from India and Brazil, which balances well for sustainable growth in a challenging global environment for the pharma sector. U.S. business is also stable. Two manufacturing plants of Torrent are reeling under regulatory issues with a warning letter being issued by the USFDA. Management expects the issues to be resolved; and till such time, approvals from these plants would be withheld. Torrent has submitted its responses to the regulator and is awaiting a revert on this. Timely and successful resolution of USFDA issues is critical from a growth perspective.

Key Risks

- ◆ Slowdown in ANDA approvals and USFDA-related regulatory risks could hurt business prospects.
- ◆ Delay in product launches in Brazil, Germany, and the U.S. could restrict growth in these key geographies.
- ◆ Currency fluctuation poses a risk to export businesses.

Additional Data

Key management personnel

Mr. Sudhir Mehta	Chairman (Emeritus)
Mr. Samir Mehta	Executive Chairman
Mr. Sudhir Menon	CFO

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mirae Asset Global Investments	1.59
2	ICICI Prudential Life Insurance	1.24
3	Kotak Mahindra AMC	1.21
4	Vanguard Group Inc.	1.11
5	BlackRock Inc.	0.95
6	FMR LLC	0.91
7	Nippon Life India AMC	0.85
8	UTI Asset Management	0.84
9	Norges Bank	0.71
10	ICICI Prudential AMC	0.63

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that neither he or his relatives or Sharekhan associates has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either, SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Binkle Oza; Tel: 022-61169602; email id: complianceofficer@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com.

Registered Office: Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.